

Message Text

CONFIDENTIAL

PAGE 01 JAKART 00436 111349Z

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ACTION EA-06

INFO OCT-01 ISO-00 EB-03 L-01 SS-14 SP-02 INR-05 OES-02

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6057

INFO AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 0436

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LIMDIS

E.O. 11652: GDS

TAGS: ENRG ID

SUBJECT: ENERGY: INDONESIAN LNG

REFS: A) JAKARTA 10470

B) JAKARTA 10536

1. SUMMARY: PACIFIC LIGHTING AND GOI DIRECTORATE OF OIL AND GAS (MIGAS)/PERTAMINA SIGNED AGREEMENT JANUARY 11, 1975 ON AMENDMENTS TO CONTRACT CONCERNING PRICE AND OTHER ISSUES ON ANNUAL SALE OF 3. 5 MILLION

TONS LNG OVER 20 YEAR PERIOD; FORMAL GOI APPROVAL EXPECTED WITHIN 30 DAYS AND PL WILL MOVE FORWARD WITH NECESSARY FPC APPLICATION. PRICE IS SIGNIFICANTLY BELOW THAT BEING PAID BY JAPANESE. EMBASSY BELIEVES THIS CONTRACT IS FURTHER ARGUMENT FOR EXCEPTION FOR INDONESIA FOR TITLE V OF TRADE ACT EVEN THOUGH OPEC MEMBER. END SUMMARY

2. FOLLOWING EIGHT DAYS OF HARD BARGAINING, DIRECTORATE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 00436 111349Z

OF OIL AND GAS (MIGAS)/PERTAMINA AND PACIFIC LIGHTING

(PL) NEGOTIATORS REACHED AGREEMENT ON VIRTUALLY ALL OUTSTANDING MATTERS RELATED TO LNG SALE OF 3.5 MILLION TONS ANNUALLY OVER 20 YEARS TO U.S.

3. GENERAL IBNU SUTOWO, PERTAMINA'S PRESIDENT DIRECTOR, SIGNED AMENDMENTS TO PREVIOUS CONTRACT ON JANUARY 11, 1975. AMBASSADOR WAS INVITED TO SIGNING. AMENDMENTS WILL NOW BE SUBMITTED FOR FORMAL GOI APPROVAL WHICH PL EXPECTS TO RECEIVE WITHIN 30 DAYS. MEANWHIL PL WILL PREPARE DOCUMENTS TO COMPLETE APPLICATION TO FPC AND EXPECTS TO SUBMIT DOCUMENTS TO FPC WITHIN 45 DAYS.

4. DURING CALL ON AMBASSADOR, PL REPS SAID MIGAS/ PERTAMINA AND PL HAD AGREED ON COMPLEX PRICING FORMULA WHICH WOULD RELATE LNG BASE PRICE TO PRICE INDON CRUDE OIL AND U.S. FUELS INDEX. PRESENT BASE PRICE WOULD BE \$1.25 BUT WITH AGREED PRICE ADJUSTMENT PROVISIONS INDICATED PRICE WOULD BE ABOUT \$1.35 F.O.B. PER MILLION BTU'S. ASSUMING 10 PERCENT ANNUAL INCREASE IN U.S. FUELS INDEX AND IF NO INCREASE INDON CRUDE OIL PRICE, LNG PRICE COULD RISE TO \$1.66 F.O.B. IN 1979 WHEN FIRST SHIPMENTS WILL BE MADE TO WEST COAST. WE UNDERSTAND PRESENT ACTUAL PRICE TO PL IS SIGNIFICAMNTLY BELOW PRICE TO JAPANESE.

5. AT PL REQUEST, PERTAMINA HAS AGREED TO DELIVER LNG TO SOUTHERN CALIFORNIA, SUBJECT TO WORKING OUT SATISFACTORY SHIPPING ARRANGEMENTS. IF PERTAMINA CANNOT MAKE ARRANGEMENTS, PL WILL ASSUME RESPONSIBILITY. THEY ARE LAREADY IN TOUCH WITH SUN SHIPBUILDING ON POSSIBLE TANKER CONSTRUCTION. PL EXPECTS JOINT PL/PERTAMINA/ SHIPPING COMPANY MEETING WILL TAKE PLACE IN FEBRUARY.

6. PL VICE PRES. R. TODD TLD EMBOFF EITHER TODD OR O'ROURK WILL BE SEEKING APPOINTMENT WITH UNDER SECRETARY INGERSOLL THROUGH EDMONDS TO BRIEF DEPT. ON DETAILS.

7. PL REPS REQUEST FOREGOING INFO BE CLOSELY HELD AND SUGGEST WE RESPOND AS FOLLOWS TO INQUIREIES ON STATUS LNG CONTRACT. QUOTE. WE UNDERSTAND PL AND PERTAMINA MADE SUBSTANTIAL PROGRESS TOWARD CONSUMMATING AGREEMENT ON CONFIDENTIAL

CONFIDENTIAL

PAGE 03 JAKART 00436 111349Z

REVISED PRICE OF PREVIOUS CONTRACT DURING RECENT DISCUSSIONS IN INDONESIA BUT WE ARE NOT AL LIBERTY TO DISCUSS THE DETAILS. AS IS CUSTOMARY, PL--AS PUBLIC UTILITY -- WILL BE SUBMITTING DOCUMENTS TO FPC FOR CONSIDERATION AT WHICH TIME INFORMATION WILL BE PUBLIC. PL WILL PROBABLY ISSUE PRESS RELEASE ON THE SUBJECT SHORTLY AFTER CONSUMMATION OF AMENDMENT. UNQUOTE.

8. COMMENT: AGREEMENT BETWEEN MINISTRY, PERTAMINA AND PACIFIC LIGHTING ON AMENDMENT TO LNG SALES CONTRACT IS MOST SIGNIFICANT DEVELOPMENT IN U.S.-INDONESIAN ENERGY RELATIONSHIP IN LAST SEVERAL YEARS. BY AGREEING TO SELL LNG TO U.S. AT WHAT IS NOW AT LEAST SUBSTANTIALLY LOWER PRICE THAN JAPANESE ARE PAYING, INDONESIA HAS CLEARLY DEMONSTRATED ITS INTEREST IN ACCESS TO U.S. MARKET AND HAS OPENED WAY TO FURTHER POSSIBLE ARRANGEMENTS.

9. WHILE PACIFIC LIGHTING GROUP WAS UNDERSTANDABLY UPSET AT INDONESIAN DESIRE TO RENEGOTIATE EARLIER ARRANGEMENTS, THEY NOW ADMIT THAT EARLIER PRICE WAS UNREALISTIC IN TERMS OF ESCALATING DEMAND AND COSTS. ASSUMING FORMAL GOI APPROVAL IS FORTHCOMING (AND WE BELIEVE IT WILL BE), INDONESIA HAS DEMONSTRATED POSITIVE ATTITUDE TOWARD TRADE RELATIONS WITH U.S.

10. IN SORTING OUT IMPLICATIONS OF TRADE ACT, WE BELIEVE PACIFIC LIGHTING CONTRACT ADDS FURTHER ARGUMENT FOR EXCEPTION FOR INDONESIA IN RESTRICTIONS PLACED ON RELATIONS WITH OPEC COUNTRIES.

11. PACIFIC LIGHTING WILL ANNOUNCE CONCLUSION OF AMENDMENT IN PRESS RELEASE IN LOS ANGELES EARLY NEXT WEEK. RELEASE WILL GIVE NO REPORT NO DETAILS OF AGREEMENT. NEWSOM

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